

SETTLEMENT AGREEMENT

I. INTRODUCTION

A. The Michigan Attorney General Mike Cox on behalf of the State of Michigan (the "Attorney General" or the "AG") and Talk America Inc. ("Talk America" or the "Company"), by their authorized representatives, hereby enter into this Settlement Agreement ("Settlement Agreement" or "Agreement") to resolve the Complaint filed by the Attorney General before the Michigan Public Service Commission (the "Commission" or "MPSC") in Case No. U-14825 (the "Proceeding") alleging non-compliance with the Michigan Telecommunications Act ("MTA") and Commission rules and regulations.

B. The Attorney General filed the Complaint based upon an informal complaint lodged by Park Place Living Centre against Talk America with the Commission. The complaint alleged that Park Place lost the ability to receive incoming telephone calls between December 23, 2005 and January 31, 2006. Accordingly, the Attorney General brought the Complaint on behalf of the People of the State of Michigan to enforce provisions of the MTA and rules and regulations of the Michigan Public Service Commission for telecommunications providers.

II. DEFINITIONS

A. For purposes of this Settlement Agreement, the following definitions shall apply:

1. "Complaint" means the formal complaint filed by the Attorney General against Talk America in MPSC Case No. U- 14825.
2. "Effective Date" means the first business day following the date on which the Commission issues an order dismissing MPSC Case No. U-14825 with prejudice.
3. "Parties" means Talk America and the Attorney General on behalf of the State of Michigan.
4. "Related Potential Claims" means any violations (and any penalties and fines for any violations) under MCL 484.2101 *et. seq.* as well as any related claims (and any penalties and fines for any related claims) under MPSC rules and regulations adopted by the MPSC arising directly or indirectly from the Talk America Service Outage between December 1, 2005 and January 31, 2006. "Related Potential Claims" specifically excludes any claims under the MTA or any other law, rule or regulation that the Attorney General is made aware of that are not directly or indirectly related to the Service Outage.
5. "Service Outage" means service problems experienced by Talk America customers including, but not limited to, loss of dial tone, ring tone, features, equipment failures caused by service transfers between Talk America and

Michigan Bell Telephone Company, software upgrades, and other repair activity that may have contributed to Talk America service problems between December 1, 2005 and January 31, 2006.

6. "Talk America" or the "Company" includes subsidiaries, affiliates, directors, officers, employees, agents or any other person acting under, by, through, or on behalf of Talk America, directly or indirectly, or through any corporate or other device, including any subsidiaries, affiliates, and successors as well as any corporate predecessors or assigns controlling or controlled by Talk America.

7. "Settlement Date" means the last date appearing below to which this Settlement Agreement was executed.

III. REPRESENTATIONS

A. Talk America represents and warrants it has good and sufficient funds available to meet fully all financial obligations called for in this Agreement.

B. Talk America and its representatives, agents, employees, or any other person who acts under, by, through, or on behalf of Talk America, directly or indirectly, or through any corporate or other device, shall not represent or imply that any activity hereinafter used or engaged in by Talk America to solve the Service Outage has been approved, in whole or in part by the Attorney General.

C. The Attorney General represents and warrants that the delivery by Talk America of Phone Cards to be donated to charities and Nursing homes or non-profit organizations as set forth herein, shall not violate any law, rule or regulation.

IV. APPLICATION

A. This Agreement shall be binding upon and inure to the benefit of the Parties and their successors and assigns. This Agreement shall also be binding upon and inure to the benefit of any corporate parent, holding company, d/b/a, affiliate or subsidiary of Talk America to the extent necessary to ensure that the rights and obligations created by this Agreement are effectuated and survive any merger, dissolution, or change in Talk America's legal name, identity, organization, or function.

V. AGREEMENT

A. The Parties agree and acknowledge that this Settlement Agreement shall constitute a full and final settlement of the allegations in the Complaint, all Related Potential Claims and the Service Outage. The commitments undertaken herein have been or will be effectuated pursuant to the terms of this Settlement Agreement. In express reliance on the covenants and representations contained herein, and in order to avoid the further expenditure of scarce public resources, the Attorney General on behalf of the State of Michigan agrees to the dismissal of the Complaint with prejudice and to waive and release all Related Potential Claims, including but not limited, to any fines imposed by or made payable to the State of Michigan other than those agreed to in this Agreement. This Settlement Agreement does not release any claims that arise after the Settlement Date except as such claims relate to the Complaint, Related Potential Claims and the Service Outage. Nothing in this Settlement Agreement shall be construed to deprive any consumer, other person or entity of any right to pursue any available

remedy or remedies pursuant to applicable law nor create any private rights or causes of action in any third parties. In consideration for dismissal of the Complaint and waiver and release of all Related Potential Claims, Talk America agrees to the terms, conditions, and procedures contained herein. The Attorney General agrees that he will not initiate further inquiries, investigations, hearings, complaints or other actions, formal or informal, against Talk America concerning the Service Outage.

B. The Parties agree that this Settlement Agreement does not constitute either an adjudication on the merits or a factual or legal finding or determination regarding any compliance or non-compliance by Talk America with the requirements of the Michigan Telecommunications Act, the MPSC's rules and regulations or any other statute, order or rule. The Parties agree that this Settlement Agreement is for settlement purposes only and that while agreeing to this Settlement Agreement, Talk America denies liability, denies violating the Michigan Telecommunications Act or any MPSC rules or regulations in connection with matters described in the Complaint, any Related Potential Claims, and the Service Outage, and expressly reserve the right to raise any defense or objection relating to future matters relating to the Michigan Telecommunications Act, the MPSC's rules and regulations or any other statute, order or rule.

C. In consideration for final resolution of the Complaint and all Related Potential Claims and in accordance with the terms of this Settlement Agreement, Talk America agrees to the terms, conditions, and procedures described below. Unless otherwise noted, beginning 14 days after the Effective Date of the Settlement Agreement, Talk America agrees to implement the Compliance Plan delineated below. Nothing in this Compliance Plan shall alter Talk America's obligation to comply with governing state statutes, MPSC rules and Commission orders. Accordingly, Talk America agrees to:

1. Payment – Talk America shall pay the State of Michigan the amount of \$50,000. The payment shall be made within fourteen calendar days after the Effective Date. The payment shall be made by check drawn to the order of the State of Michigan as directed by the Attorney General.
2. Phone Cards – Talk America shall provide to the Attorney General within sixty calendar days after the Effective Date 5,000 Talk America Domestic Phone Cards with a cumulative value of \$100,000 to be donated to Michigan charities or Nursing homes or non-profit organizations to be identified by the Attorney General. The Attorney General agrees to supply Talk America with a list of said charities and Nursing homes within sixty calendar days after the Effective Date of this Agreement. Each Phone Card shall have 200 minutes of usage. Talk America warrants that such Phone Cards are fit for general use within thirteen (13) months from the Effective Date. The Attorney General acknowledges that Talk America disclaims any liability for any use of such phone cards outside normal use, including all direct, indirect, and consequential damages related thereto.
3. Future Actions – Talk America agrees to use commercially reasonable efforts to test all customer affecting switchovers and software implementation prior to introducing such changes.

D. Talk America's agreement to enter into this Settlement Agreement is expressly contingent upon the issuance of an Order by the MPSC that shall dismiss the Complaint with prejudice.

E. This Settlement Agreement constitutes the entire Settlement Agreement between the Parties with regard to settling the Complaint and all Related Potential Claims.

F. No representations, warranties, or inducements have been made by the Parties to each other concerning this Settlement Agreement, other than those representations, warranties and covenants contained in this Settlement Agreement.

G. No waiver, modification or amendment of the terms of this Settlement Agreement shall be valid or binding unless made in writing, and signed by all Parties affected and then only to the extent set forth in such written waiver, modification, or amendment.

H. Except for the Parties' respective obligations hereunder, and for and in consideration of the mutual promises and covenants contained herein, and other good and valuable consideration, the sufficiency of which are hereby acknowledged, the Attorney General on behalf of the State of Michigan does hereby and forever discharge and release Talk America, and its respective parent, subsidiary and affiliate corporations, officers, directors, shareholders, employees, agents, successors, consultants, representatives, attorneys and assigns, of and from the Complaint and all Related Potential Claims and Service Outage.

J. Each of the Parties participated in the drafting of this Settlement Agreement, and therefore the terms of this Settlement Agreement are not intended to be construed against any of the Parties by virtue of draftsmanship.

K. Any failure by any Party to the Agreement to insist on strict performance by any other Party of any provision of this Agreement shall not be deemed a future waiver of any of the provisions of this Agreement, and such Party, notwithstanding such failure, shall have the right to insist upon the specific performance of any and all of the provisions of this Agreement.

L. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Michigan, including, but not limited to, its conflict of laws principles.

M. The Parties agree that venue for any and all matters or disputes arising out of this Agreement and asserted by or against the Attorney General shall lie solely in Ingham County, Michigan.

N. Talk America has caused this Agreement to be executed by an authorized representative, as its true act and deed, as of the date affixed next to his/her signature. Said representative and Talk America respectively affirm and warrant that s/he is acting in his/her capacity and within his/her authority as a corporate officer of Talk America and that by his/her signature said representative is binding Talk America to the terms and conditions of this Agreement. Talk America further represents that it has been represented by counsel in connection with this Agreement and that Talk America is fully satisfied with the representation of its counsel.

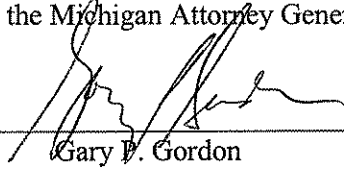
O. This Settlement Agreement is not severable. Each provision of the Settlement Agreement is dependent upon all other provisions of the Settlement Agreement. Failure to comply with any provision of the Settlement Agreement constitutes failure to comply

with the entire Settlement Agreement. The Settlement Agreement shall not constitute any part of the record of the Proceeding or be used for any purpose other than by the Parties to enforce its terms.

P. This Settlement Agreement may be signed in counterparts.

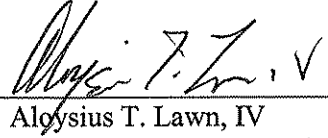
For the Michigan Attorney General

By: _____


Gary V. Gordon
Chief Deputy Attorney General

For Talk America Inc.

By: _____


Aloysius T. Lawn, IV
Executive Vice President-General Counsel

Date: _____

5-9-06

Date: _____

May 4, 2006